

Message Text

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AMEMBASSY MANILA

AMEMBASSY SEOUL

AMEMBASSY SINGAPORE

AMEMBASSY TAIPEI

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SUBJECT: WASHINGTON POST ARTICLE ON COTTON

1. FOLLOWING IS TEXT OF 2ND PAGE ARTICLE BY DAN MORGAN
PUBLISHED IN WASHINGTON POST MARCH 6 AND HEADLINED
"PEKING CANCELS ORDER FOR COTTON."

2. BEGIN TEXT: CHINA HAS CANCELED AN ORDER FOR 200,000
BALES OF AMERICAN COTTON, GIVING RISE TO FURTHER CONCERN
ABOUT SAGGING PRICES AND A GLOOMY BUSINESS OUTLOOK IN THE
U.S. COTTON AND TEXTILE INDUSTRY.

3. IN LIQUIDATING THE CONTRACT, PEKING AGREED TO PAY AN
UNIDENTIFIED MEMPHIS SUPPLIER THE DIFFERENCE BETWEEN THE
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CONTRACT SUM AND THE PRESENT LOWER PRICE. THE SETTLEMENT

COULD COME TO MANY MILLIONS OF DOLLARS, TRADE SOURCES SAID. THEY ATTRIBUTED CHINA'S CANCELLATION TO AN EXCELLENT COTTON CROP, WHICH REDUCED IMPORT REQUIREMENTS.

4. AT THE SAME TIME, NEAL GILLEN, GENERAL COUNSEL FOR THE AMERICAN COTTON SHIPPERS ASSOCIATION, CRITICIZED A TENTATIVE DECISION BY THE HOUSE AGRICULTURE COMMITTEE TO RAISE THE PRICE GUARANTEES TO COTTON FARMERS BY 10 CENTS, FROM 38 CENTS TO 48 CENTS A POUND. HE SAID THE MOVE COULD ENCOURAGE FARMERS TO PRODUCE AN EVEN BIGGER SURPLUS THAN THE ONE NOW DEPRESSING MARKETS.

5. SOME OFFICIALS OF THE DEPARTMENT OF AGRICULTURE SAY THE INCREASE IS NECESSARY TO COVER INCREASED OPERATING COSTS OF COTTON FARMERS, AND ALSO TO ENCOURAGE THEM TO CONTINUE GROWING UNTIL THE MARKET RECOVERS.

6. HOWEVER, SOME RISKS ARE INVOLVED. THE DEPARTMENT FIGURES THAT IF THE PRICE OF COTTON FALLS A PENNY BELOW THE NEW GUARANTEES, OR "TARGET PRICES," TAXPAYERS WOULD HAVE TO PAY OUT 49.9 MILLION DOLLARS. UNDER THE

SYSTEM, THE GOVERNMENT PAYS FARMERS IN CASH FOR THE DIFFERENCE BETWEEN THE GUARANTEED PRICE AND THE PRICE THEY ACTUALLY RECEIVE AT MARKET.

7. SINCE A YEAR AGO, COTTON PRICES HAVE BEEN CUT ROUGHLY IN HALF--FROM 70 CENTS A POUND TO UNDER 40 CENTS--BECAUSE OF PREVIOUS OVERBUYING ABROAD AND A SLUMP IN THE TEXTILE INDUSTRY IN THE FAR EAST AND THE UNITED STATES THAT INDUSTRY OFFICIALS TERM "DISASTROUS."

8. THE SHIPPERS ASSOCIATION, WHICH HAS 500 MEMBERS, HANDLES 75 PERCENT OF THE U.S. COTTON TRADED DOMESTICALLY AND 80 PERCENT OF EXPORTS. GILLEN SAID THE ASSOCIATION, WHICH BUYS FROM FARMERS, WAS AFRAID THE HIGHER GUARANTEES WOULD DRIVE THE PRICE OF TRADED COTTON STILL LOWER.

9. STOCKS OF 6.5 MILLION BALES ARE PREDICTED FOR AUG. 1 COMPARED WITH 3.5 MILLION BALES A YEAR EARLIER, HE SAID. UNCLASSIFIED

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A DECLINE IN EXPORTS TO ASIA IS A MAJOR FACTOR IN THIS.

10. ONE OF THE LARGEST JAPANESE TEXTILE MILLS RECENTLY WENT BANKRUPT AND SYNTHETIC FIBER MILLS ARE SUFFERING FROM SLACK DEMAND FOR FINISHED GOODS.

11. GILLEN SAID THAT A SECOND 200,000 BALE CANCELLATION BY CHINA IS POSSIBLE SOON.

12. THE STATE DEPARTMENT IS PRESENTLY NEGOTIATING WITH THE GOVERNMENTS OF SOUTH KOREA, THE PHILIPPINES, TAIWAN AND THAILAND TO GET THEM TO ACCEPT DELIVERY OF SOME 1 MILLION BALES ORDERED LAST YEAR AT HIGHER PRICES.

13. BY CONTRAST, GILLEN SAID, CHINA AGREED TO SETTLE WITH THE SELLING MERCHANT IN MEMPHIS. TRADE SOURCES SAID THE SETTLEMENT COULD COST THE CHINESE AS MUCH AS 30 MILLION DOLLARS.

14. AT THE MAXIMUM PRICE REACHED BY COTTON LAST YEAR, 200,000 BALES SOLD FOR 70 MILLION DOLLARS. END TEXT. INGERSOLL

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